
CREDIT METHODOLOGY CHANGES

To: **Cabinet – 31 July 2014**

Main Portfolio Area: **Finance**

By: **Capital & Treasury Finance Officer**

Classification: **Unrestricted**

Report Produced on: **25 June 2014**

Ward: **Thanet Wide**

Summary: **This report concerns credit methodology changes and consequent changes to the Council's investment criteria**

For Decision

1.0 Introduction and Background

- 1.1 In the Council's Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2014/15 (TMSS), minimum credit ratings criteria are set for investment counterparties.
- 1.2 Capita Asset Services (Capita), the Council's external treasury management advisor, has informed the Council of the following:
- The main ratings agencies (Fitch, Moody's and Standard & Poors) have provided some institutions with a rating uplift due to implied levels of sovereign support.
 - Due to the evolving regulatory regime, it is expected that implied sovereign support levels are going to be removed and this process will commence this year.
 - Capita is looking to pre-empt this process by making changes to its rating assessment methodology from 27 June 2014.
- 1.3 The current Capita methodology includes an assessment of the 'standalone' credit ratings provided by Fitch (Viability rating) and Moody's (Financial Strength rating). Due to the removal of sovereign support from agency ratings, Capita has reported that Fitch and Moodys' have suggested that their Viability and Financial Strength ratings respectively will become the same as their Long Term ratings.
- 1.4 The current Capita methodology also includes an assessment of the Fitch Support rating. Capita has reported that Fitch has begun assessing its Support ratings, with the expectation that these will be lowered to 5 which is defined as '*a bank for which there is a possibility of external support, but it cannot be relied upon.*' Capita has reported that all institutions are likely to drop to this level and hence there is little or no differentiation to be had by Capita continuing to assess Support ratings in its methodology.

1.5 Accordingly, the credit element of Capita's new rating assessment methodology will focus solely on the Short Term and Long Term ratings of an institution.

2.0 The Current Situation

2.1 The Council's minimum credit ratings criteria for banks as set out in section 4.2 of its TMSS include Viability bb- (Fitch), Financial Strength C- (Moody's), and Support 3 (Fitch).

2.2 Cabinet may wish to note that the report will be considered at an Extraordinary Governance & Audit Committee meeting on 30 July 2014 and any comments and recommendations from that meeting would be tabled at Cabinet.

3.0 Options

3.1 That the Cabinet recommends to Council that minimum credit ratings criteria for Viability, Financial Strength and Support no longer be included in the Council's TMSS. The relevant extract (section 4.2) of the TMSS is shown in Annex 1. There will be one Medium Quality category, instead of two, with a money limit of £5m.

3.2 That the Cabinet recommends to Council that the Council's TMSS remains unchanged.

4.0 Corporate Implications

4.1 Financial and VAT

5.1.1 If option 3.2 is chosen there is an expectation of a reduction in the Council's counterparty list in due course.

5.2 Legal

5.2.1 This report evidences that the requirements of the CIPFA Code of Practice on Treasury Management continue to be met.

5.3 Corporate

5.3.1 This report evidences that the Council continues to carefully manage its treasury function.

5.4 Equity and Equalities

5.4.1 There are no equality or equity issues arising directly from this report.

6.0 Recommendation

6.1 That Cabinet approves option 3.1 (in line with Capita's new rating assessment methodology) and recommends it to Council.

7.0 Decision Making Process

7.1 This report is to go Council for final approval. The next Council meeting is on 2 October 2014.

8.0 Disclaimer

- 8.1 This report is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

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Annex List

Annex 1	Section 4.2 of the Council's TMSS
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Corporate Consultation Undertaken

Finance	N/A
Legal	N/A